



Federal Accounting Standards Advisory Board

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August 31, 2006

Memorandum

To: Members of the Board

From: Julia E. Ranagan, Assistant Director

Through: Wendy M. Comes, Executive Director

Subject: **Technical Bulletin 2006-1, Draft Technical Bulletin for Final Review (Tab J)**

I am attaching a draft *Technical Bulletin 2006-1, Recognition and Measurement of Asbestos-Related Cleanup Costs*, for final review by the board. The first copy is the clean version, followed by two marked versions – the first with only changes since the last version I sent on August 15 and the second with all changes since the exposure draft was released for comment. **The final technical bulletin will be released on September 28, 2006, unless more than five board members object to its issuance.** The release date has been extended from the originally planned date of September 25, 2006, to allow for board member discussion at the September meeting if any members should request it.

As you are aware, FASAB received three more comment letters subsequent to the July 27th board meeting from the following agencies:

- National Aeronautics and Space Administration (NASA)/Office of the Chief Financial Officer;
- Environmental Protection Agency (EPA)/Office of the Chief Financial Officer; and,
- Architect of the Capitol (AOC)/Accounting Division.

These three additional letters were submitted for your review with previous drafts of the technical bulletin. In addition, we recently received comments from the EPA's Office of the General Counsel on the August 15th draft of the technical bulletin. These comments are reflected in the marked changes since the last version; you will note that they are primarily editorial in nature.

When staff included the new comment letters in the summary of responses previously provided, the percentage of respondents that agreed with the staff proposal dropped, in some cases even to less than 50% (see *Attachment 1*). In addition, staff has received several phone calls from auditors and preparers asking for a more detailed explanation as to why an estimate should be made for asbestos that is in a nonfriable state as of the reporting date. While staff has based its

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<sup>1</sup> The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

recommended changes on the substance of the issues raised in the comment letters and not the votes cast, staff feels it is important to bring this specific issue to the board's attention and the reasons why staff recommends to add a clarifying paragraph to the basis for conclusions and continue with the release of the technical bulletin. The added attention to this issue reflects the board's commitment to due process and the importance placed on due consideration of respondents' comments.

The particular issue that was raised in several comment letters including the NASA and AOC comment letters received since the last board meeting is related to several respondents' opinion that an accounting liability should not be recorded for something that is not a current legal liability as of the reporting date. Similar concerns regarding this issue were contained in the comment letters to the Financial Accounting Standard Board's (FASB) Financial Interpretation Number (FIN) 47, *Accounting for Conditional Asset Retirement Obligations*.

Despite the strong opposition voiced in the comment letters, the FASB determined that a conditional asset retirement obligation does meet the definition of a liability. With respect to the first characteristic of a liability – present duty or responsibility – paragraph B10 in the basis for conclusions states the board's view as follows:

The first characteristic of a liability is that an entity has a present duty or responsibility to one or more other entities that entails settlement by probable future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand. A duty or responsibility becomes a present duty or responsibility when an obligating event occurs that leaves the entity little or no discretion to avoid a future transfer or use of assets. A present duty or responsibility does not mean that the obligation must be satisfied immediately. Rather, if events or circumstances have occurred that give an entity little or no discretion to avoid a future transfer or use of assets, that entity has a present duty or responsibility. If an entity is required by current laws, regulations, or contracts to settle an asset retirement obligation upon retirement of the asset, that requirement imposes a present duty.

The comment letters and FIN 47 are currently accessible on the FASB website at: <http://www.fasb.org/ocl/fasb-getletters.php?project=1099-001> and <http://www.fasb.org/st/>, respectively.

### **Staff Recommendation: Add Clarifying Paragraph to Basis for Conclusions**

Based on the issue described above and the strong opposition voiced in some of the respondents' comment letters, staff recommends adding the following plain-English paragraph near the end of the basis for conclusions where the comment letters on the exposure draft are summarized.

Several respondents that were strongly opposed to the proposed guidance argued that because there is no legal requirement to cleanup nonfriable asbestos, it is not appropriate to estimate a liability for nonfriable asbestos. The board has agreed that while legal enforceability may provide additional evidence that a liability exists, it is not a prerequisite. The guidance in this technical bulletin is requiring that the entity estimate the economic impact that the existence of asbestos has on the financial position of the entity. Therefore, if asbestos is present in any form in an entity's PP&E at year-end, the entity is required to estimate the costs that will be incurred at any point in the future to comply with all related laws and regulations regarding the asbestos already in existence as of the reporting date. The entity is only required to prepare a best estimate of costs that will eventually be

incurred. The entity is not required to estimate costs for cleanup of asbestos that will never occur (e.g., nonfriable asbestos that will never become friable). Language was added to clarify the intent of the guidance.

With the addition of the recommended change above, I believe all board member and respondent comments have been considered and changes incorporated, accordingly. If you have any questions or comments, please contact me by telephone at 202-512-7377 or by e-mail at [ranaganj@fasab.gov](mailto:ranaganj@fasab.gov).

## Attachment 1 – Updated Summary of Responses

### Summary of Responses by Question

- 7 of 11 respondents **(64%) agree** that the guidance in the Technical Bulletin clearly explains who and what is affected. Staff made changes to the technical bulletin to address the majority of the comments of the four respondents that disagreed.
- 9 of 11 respondents **(82%) agree** that the difference between friable and nonfriable asbestos and the accounting issue being addressed is clearly explained.
- 6 of 11 respondents **(55%) agree** that federal entities should estimate both friable and nonfriable asbestos-related cleanup costs and recognize a liability and related expense for those costs that are probable and reasonably estimable.
- 5 of 11 respondents **(45%) agree** with the note disclosures required for friable and nonfriable asbestos-related cleanup costs.
- 5 of 11 respondents **(45%) agree** with the treatment of friable and nonfriable asbestos-related cleanup costs related to stewardship PP&E.

QUESTION	YES/ AGREE	NO/ DISAGREE	NO COMMENT	TOTAL
1. Does the guidance in paragraphs 1 through 4 clearly explain who and what is affected by this Technical Bulletin?	<b>7</b>	<b>4</b>	<b>0</b>	<b>11</b>
2. Does the guidance in paragraphs 5 through 19 clearly explain the difference between friable and nonfriable asbestos and the accounting issue being addressed?	<b>9</b>	<b>2</b>	<b>0</b>	<b>11</b>
3. Do you agree with the guidance in paragraphs 20 through 32 that federal entities should estimate both friable and nonfriable asbestos-related cleanup costs and recognize a liability and related expense for those costs that are probable and reasonably estimable, consistent with SFFAS 6, Chapter 4, Cleanup Costs, and Technical Release 2, Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government?	<b>6</b>	<b>5</b>	<b>0</b>	<b>11</b>
4. Do you agree with the guidance in paragraphs 33 through 34.e regarding note disclosures required for both friable and nonfriable asbestos-related cleanup costs, consistent with SFFAS 6, Chapter 4, Cleanup Costs?	<b>5</b>	<b>6</b>	<b>0</b>	<b>11</b>
5. Do you agree with the guidance in paragraphs 35 through 39 regarding the treatment of both friable and nonfriable asbestos-related cleanup costs related to stewardship PP&E (Heritage Assets and Stewardship Land), consistent with SFFAS 6, Chapter 4, Cleanup Costs?	<b>5</b>	<b>5</b>	<b>1</b>	<b>11</b>

Note: EPA/CFO's response stated only that, "We have reviewed the draft and determined that the exposure draft when implemented will have major impact to EPA's recognition and measurements of such costs." Therefore, their response is not factored into the counts above since they did not directly respond to the questions.

**Quick Table of Respondents and Answers**

<b>Organization (Respondent)</b>	<b>Question 1 - Does the guidance in paragraphs 1 through 4 clearly explain who and what is affected by this Technical Bulletin?</b>	<b>Question 2 - Does the guidance in paragraphs 5 through 19 clearly explain the difference between friable and nonfriable asbestos and the accounting issue being addressed?</b>	<b>Question 3 - Do you agree with the guidance in paragraphs 20 through 32 that federal entities should estimate both friable and nonfriable asbestos-related cleanup costs and recognize a liability and related expense for those costs that are probable and reasonably estimable, consistent with SFFAS 6, Chapter 4, Cleanup Costs, and Technical Release 2?</b>	<b>Question 4 - Do you agree with the guidance in paragraphs 33 through 34.e regarding note disclosures required for both friable and nonfriable asbestos-related cleanup costs, consistent with SFFAS 6, Chapter 4, Cleanup Costs?</b>	<b>Question 5 - Do you agree with the guidance in paragraphs 35 through 39 regarding the treatment of both friable and nonfriable asbestos-related cleanup costs related to stewardship PP&amp;E (Heritage Assets and Stewardship Land), consistent with SFFAS 6, Chapter 4, Cleanup Costs?</b>
1. Management Concepts	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
2. KPMG	<b>No</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
3. GWSCPA	<b>No</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
4. AGA Financial Management Standards Board	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
5. Department of Interior	<b>No</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
6. NASA, Environmental Management Division	<b>Yes</b>	<b>Yes</b>	<b>No</b>	<b>No</b>	<b>No</b>
7. General Services Administration	<b>Yes</b>	<b>Yes</b>	<b>No</b>	<b>No</b>	<b>No</b>
8. Department of Transportation	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>No</b>	<b>No Answer/General Comments</b>
9. Department of Commerce	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>
10. NASA, Chief Financial Officer	<b>Yes</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>
11. Architect of the Capitol	<b>Yes</b>	<b>Yes</b>	<b>No</b>	<b>No</b>	<b>No</b>



**Federal Accounting Standards Advisory Board**

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**NOTE: THIS FILE CONTAINS ONLY THE FIRST PAGE OF THE DRAFT TECHNICAL BULLETIN THAT WAS SENT TO THE BOARD FOR FINAL REVIEW. DRAFT DOCUMENTS ARE NOT POSTED TO THE FASAB'S WEB SITE.**

**RECOGNITION AND MEASUREMENT OF  
ASBESTOS-RELATED CLEANUP COSTS**

***Technical Bulletin 2006-1***

September 28, 2006

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